Nxuba Local Municipality
Annual Financial Statements
for the year ended 30 June 2014

General Information

Legal form of entity	Local Municipality
Nature of business and principal activities	The main business operation of the municipality is to engage in local governance activities
Mayoral committee	
Executive Mayor	Bruintjies LL
Councillors	Auld CA
	De Lange G (deceased: March 2014)
	Douglas LJ (elected: April 2014)
	Jack P
	Lombard E
	Maloni QP
	Mentoor BP
	Ndyambo S
Municipal demarcation code	EC128
Grading of local authority	One (1)
Capacity of local authority	Low capacity
Accounting Officer	Caga S
Chief Finance Officer (CFO)	Marabana N (Appointed: November 2013)
	Malinga J (Acting: May 2013 - October 2013)
Registered office	Market Square Adelaide 5760
Business address	Market Square Adelaide 5760
Postal address	Private Bag X350 Adelaide 5760
Bankers	ABSA Bank Ltd
Auditors	Auditor General of South Africa
Attorneys	Neville Borman and Botha Attorneys Wikus van Rensburg Attorneys

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The reports and statements set out below comprise the annual financial statements presented to the council:

Abbreviations

AFS	Annual Financial Statements
ASB	Accounting Standards Board
FMG	Financial Management Grant
GRAP	Generally Recognised Accounting Practice
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
SARS	South African Revenue Services
VAT	Value Added Tax

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The annual financial statements set out on pages 4 to 67, which have been prepared on the going concern basis, were approved by the accounting officer on 29 August 2014 and were signed by him:

Caga S
Accounting Officer

Adelaide

29 August 2014

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2014.

1. Review of activities

The municipality is engaged in the main business operation of the municipality is to engage in local governance activities and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Corporate governance

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

5. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is S Caga.

Statement of Financial Position as at 30 June 2014

Figures in Rand	Note(s)	2014	2013 Restated*
Assets			
Current Assets			
Cash and cash equivalents	3	1,885,844	663,531
Receivables from exchange transactions	4	8,944,937	5,500,427
Receivables from non-exchange transactions	5	3,031,183	2,116,294
Inventories	6	497,051	605,975
VAT receivable	7	860,821	38,796
Operating lease asset	8	5,261	-
		15,225,097	**8,925,023**
Non-Current Assets			
Property, plant and equipment	9	206,723,510	197,023,206
Investment property	10	19,800,249	20,054,174
Intangible assets	11	9,075	10,268
Heritage assets	12	43,632	43,632
		226,576,466	**217,131,280**
Total Assets		**241,801,563**	**226,056,303**
Liabilities			
Current Liabilities			
Finance lease obligation	13	483,796	606,628
Operating lease liability	8	-	11,526
Payables from exchange transactions	14	45,459,183	23,674,830
Consumer deposits	15	392,286	375,445
Retirement benefit obligation	16	582,000	582,000
Unspent conditional grants and receipts	17	3,249,981	3,314,270
Provisions	18	249,019	4,310,897
Long service award liability	19	177,000	192,000
		50,593,265	**33,067,596**
Non-Current Liabilities			
Retirement benefit obligation	16	2,549,000	2,907,000
Provision	18	560,643	-
Long service award liability	19	754,000	837,000
		3,863,643	**3,744,000**
Total Liabilities		**54,456,908**	**36,811,596**
Net Assets		**187,344,655**	**189,244,707**
Accumulated surplus		187,344,655	189,244,707

* See Note 42

Statement of Financial Performance

Figures in Rand	Note(s)	2014	2013 Restated*
Revenue			
Service charges	21	21,488,718	18,912,263
Property rates	22	3,214,734	3,093,783
Government grants & subsidies	23	38,088,562	34,975,587
Admin, sundry charges		950,746	1,032,137
Interest received	24	2,512,671	2,707,673
Licences and permits		2,157,880	1,953,220
Fines		223,500	202,900
Rental of facilities and equipment	25	152,847	116,908
Other revenue	26	5,853,614	4,025,901
Total revenue		**74,643,272**	**67,020,372**
Expenditure			
Employee related costs	27	(21,655,298)	(20,715,694)
Remuneration of councillors	28	(2,105,536)	(2,031,849)
Debt impairment	29	(3,853,599)	(10,502,859)
Depreciation and amortisation	30	(994,381)	(9,184,024)
Finance costs	31	(1,175,304)	(337,197)
Repairs and maintenance		(809,424)	(303,109)
Bulk purchases	32	(23,445,206)	(19,731,836)
Contracted services	33	(5,816,977)	(443,684)
Grants and subsidies paid	34	(4,227,357)	(3,017,605)
General expenses	35	(12,460,242)	(11,396,012)
Total expenditure		**(76,543,324)**	**(77,663,869)**
Deficit for the year		**(1,900,052)**	**(10,643,497)**

* See Note 42

Statement of Changes in Net Assets

Figures in Rand		Accumulated surplus	Total net assets
Opening balance as previously reported		187,781,312	187,781,312
Adjustments			
Prior year adjustments	42	12,106,892	12,106,892
Balance at 01 July 2012 as restated*		**199,888,204**	**199,888,204**
Changes in net assets			
Deficit for the year		(10,643,497)	(10,643,497)
Total changes		(10,643,497)	(10,643,497)
Opening balance as previously reported		189,498,633	189,498,633
Adjustments			
Prior year adjustments		(253,926)	(253,926)
Restated* Balance at 01 July 2013 as restated*		**189,244,707**	**189,244,707**
Changes in net assets			
Deficit for the year		(1,900,052)	(1,900,052)
Total changes		(1,900,052)	(1,900,052)
Balance at 30 June 2014		**187,344,655**	**187,344,655**

* See Note 42

Cash Flow Statement

Figures in Rand	Note(s)	2014	2013 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		21,311,640	17,012,885
Grants		38,024,273	34,476,000
Interest income		2,512,671	2,707,673
Other receipts		8,404,528	6,022,798
		70,253,112	60,219,356
Payments			
Employee costs		(22,736,401)	(21,963,191)
Suppliers		(23,445,206)	(18,094,462)
Finance costs		(1,138,784)	(340,321)
Other payments		(11,111,490)	(14,781,498)
		(58,431,881)	(55,179,472)
Net cash flows from operating activities	38	**11,821,231**	**5,039,884**
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(10,433,226)	(9,403,636)
Purchase of intangible assets	11	(6,340)	-
Net cash flows from investing activities		**(10,439,566)**	**(9,403,636)**
Cash flows from financing activities			
Finance lease payments		(159,352)	26,295
Net increase/(decrease) in cash and cash equivalents		**1,222,313**	**(4,337,457)**
Cash and cash equivalents at the beginning of the year		663,531	5,000,988
Cash and cash equivalents at the end of the year	3	**1,885,844**	**663,531**

* See Note 42

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	25,796,447	-	**25,796,447**	21,488,718	**(4,307,729)**	47.1
Rental of facilities and equipment	87,709	-	**87,709**	152,847	**65,138**	47.2
Licences and permits	3,630,000	(1,900,000)	**1,730,000**	2,157,880	**427,880**	47.3
Other income	513,644	-	**513,644**	1,364,625	**850,981**	47.4
Total revenue from exchange transactions	**30,027,800**	**(1,900,000)**	**28,127,800**	**25,164,070**	**(2,963,730)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	2,421,268	-	**2,421,268**	3,214,734	**793,466**	47.5
Government grants & subsidies	39,222,400	-	**39,222,400**	38,088,562	**(1,133,838)**	47.6
Transfer revenue						
Fines	50,000	-	**50,000**	223,500	**173,500**	47.7
Total revenue from non-exchange transactions	**41,693,668**	**-**	**41,693,668**	**41,526,796**	**(166,872)**	
Total revenue	**71,721,468**	**(1,900,000)**	**69,821,468**	**66,690,866**	**(3,130,602)**	
Expenditure						
Personnel	(22,420,390)	532,620	**(21,887,770)**	(21,655,298)	**232,472**	47.8
Remuneration of councillors	(2,473,016)	166,156	**(2,306,860)**	(2,105,536)	**201,324**	47.9
Repairs and maintenance	(2,152,000)	852,000	**(1,300,000)**	(809,424)	**490,576**	47.10
Bulk purchases	(19,241,735)	1,300,000	**(17,941,735)**	(23,445,206)	**(5,503,471)**	47.11
Contracted Services	(220,000)	(273,500)	**(493,500)**	(5,816,977)	**(5,323,477)**	47.12
Grants and subsidies paid	(3,840,000)	(1,300,000)	**(5,140,000)**	(4,227,357)	**912,643**	47.13
Expenses	(9,849,727)	100,697	**(9,749,030)**	(12,460,242)	**(2,711,212)**	47.14
Total expenditure	**(60,196,868)**	**1,377,973**	**(58,818,895)**	**(70,520,040)**	**(11,701,145)**	
Deficit before taxation	**11,524,600**	**(522,027)**	**11,002,573**	**(3,829,174)**	**(14,831,747)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**11,524,600**	**(522,027)**	**11,002,573**	**(3,829,174)**	**(14,831,747)**	
Reconciliation (must be disclosed if actuals not on comparable basis to budget)						
Basis difference						
Total revenue				10,061,640		
Total expenditure				(17,379,526)		
Actual Amount in the Statement of Financial Performance				**(11,147,060)**		

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. All figures have been rounded to the nearest Rand.

A summary of the significant accounting policies are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Receivables

The municipality assesses its receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to balances in the portfolio and scaled to the estimated loss emergence period.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

Value in use of cash generating assets
The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including, together with economic factors such as interest.

Value in use of non-cash generating assets
The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependant on the availability of data and the nature of the impairment.

1.3 Significant judgements and sources of estimation uncertainty (continued)

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18 Provisions.

Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and other assets. This estimate is based on industry norm. This estimate is based on the pattern in which an asset's future economic benefits or service potential are expected to be consumed by the municipality.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for debt impairment

On receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Retirement benefit obligation

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. The most appropriate discount rate that reflects the time value of money is with reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 15 - Employee benefit obligations

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services; or
- administrative purposes; or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

1.4 Investment property (continued)

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Cost model

Subsequent to initial measurement investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	20 to 30 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

The gain or loss arising from the derecognition of investment property is determined as the difference between the net disposal proceeds and the carrying amount of the asset. Such difference is recognised in surplus or deficit when the asset is derecognised.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially recognised at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost), unless the fair value of neither the asset received nor the asset given up is reliably measurable. If the acquired item is not measured at fair value, it's cost is measured at the carrying amount of the asset given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Accounting Policies

1.5 Property, plant and equipment (continued)

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	**Average useful life**
Buildings	30 years
Infrastructure	10 - 30 years
Community assets	20 - 30 years
Other assets	3 - 20 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the municipality to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which the municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Accounting Policies

1.6 Site restoration and dismantling cost (continued)

The related asset is measured using the revaluation model:

(a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
- a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
- an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

(b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;

(c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets. If a revaluation is necessary, all assets of that class are revalued; and

(d) The Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

1.7 Intangible assets

An asset is identified as an intangible asset if it either:
- is separable, i.e. is capable of being separated or divided from the municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the municipality intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management’s best estimate of the set of economic conditions that will exist over the useful life of the asset.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale;
- there is an intention to complete and use or sell it;
- there is an ability to use or sell it;
- it will generate probable future economic benefits or service potential;
- there are available technical, financial and other resources to complete the development and to use or sell the asset; and
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Accounting Policies

1.7 Intangible assets (continued)

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	3 years

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the intangible asset. Such difference is recognised in surplus or deficit when the intangible asset is derecognised.

1.8 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

The municipality recognises a heritage asset as an asset when it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value can be measured reliably.

Initial measurement

Heritage assets are initially recognised cost.

Where a heritage asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.

Subsequent measurement

Subsequent to initial measurement heritage assets are carried at cost less any accumulated impairment losses.

Impairment

The municipality assesses at each reporting date whether there is an indication that a heritage asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

1.8 Heritage assets (continued)

Derecognition

Heritage assets are derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

1.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivable from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at amortised cost
Other financial liabilities	Financial liability measured at amortised cost

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability, other than those subsequently measures at fair value, initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality measures all other financial assets and financial liabiliites initially at fair value.

The municipality first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the municipality analyses a concessionary loan into its component parts and accounts for each component separately. The municipality accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

1.9 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility in the case of a financial asset.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Accounting Policies

1.9 Financial instruments (continued)

Where financial assets are impaired through the use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such financial assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:
  - derecognises the asset; and
  - recognises separately any rights and obligations created or retained in the transfer.

The carrying amount of the transferred asset is allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished - i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Accounting Policies

1.10 Leases (continued)

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the municipality's incremental borrowing rate.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are recognised separately as an expense in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term. The difference between the amounts recognised as revenue and the contractual receipts are recognised as an operating lease asset or liability.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Any contingent rents are recognised separately as revenue in the period in which they are received.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis over the lease term.

Any contingent rents are recognised separately as an expense in the period in which they are incurred.

1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for a nominal cost, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for:
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

Accounting Policies

1.11 Inventories (continued)

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.12 Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

1.13 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality uses management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:
- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the municipality does not reduce the carrying amount of an asset below the highest of:
- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

1.13 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.14 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

1.14 Impairment of non-cash-generating assets (continued)

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.15 Accumulated surplus/deficit

The accumulated surplus/deficit represents the net difference between the total assets and the total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/deficit.

Accounting Policies

1.16 Employee benefits

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the municipality during a reporting period, the municipality recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognises the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which the municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Accounting Policies

1.16 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the municipality during a reporting period, the municipality recognises the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Other long-term employee benefits

The municipality has an obligation to provide long-term service allowance benefits to all of its employees. According to the rules of the long-term service allowance scheme, which the municipality instituted and operates, an employee (who is on the current conditions of service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25, 30, 35 and 40 years of continued service.

The municipality’s liability is based on an actuarial valuation. The Projected Unit Credit Method is used to value the liabilities. Actuarial gains and losses on the long-term service awards are recognised in the statement of financial performance.

The amount recognised as a liability for long-term service awards is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality recognises the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which is recognised immediately;
- past service cost, which is recognised immediately; and
- the effect of any curtailments or settlements.

1.16 Employee benefits (continued)

Termination benefits

The municipality recognises termination benefits as a liability and an expense when the municipality is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The municipality is demonstrably committed to a termination when the municipality has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than twelve months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits is based on the number of employees expected to accept the offer.

1.17 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating expenditure.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

1.17 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when the municipality:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability:
- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or
- a present obligation that arises from past events but is not recognised becuase:
  - it is not probable than an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
  - the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 40.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the revaluation model:
- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.18 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

1.18 Revenue from exchange transactions (continued)

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Interest

Interest is recognised, in surplus or deficit, using the effective interest rate method.

1.19 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by the municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, the municipality either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the municipality.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

1.19 Revenue from non-exchange transactions (continued)

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Taxes (Property rates for municipalities)

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources.

Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Collection charges and penalties

Collection charges and penalty interest is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with the relevant legal requirements (if applicable).

1.19 Revenue from non-exchange transactions (continued)

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

The municipality makes use of estimates to determine the amount of revenue that it is entitled to collect. Where settlement discounts or reductions in the amount payable are offered, the municipality considers past history in assessing the likelihood of these discounts or reductions being taken up by debtors.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the municipality.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Services in-kind are not recognised.

1.20 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.21 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.22 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.23 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.24 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

All expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Accounting Policies

1.25 Budget information

Municipalites are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

The approved budget is prepared on the cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01 July 2013 to 30 June 2014.

The annual financial statements and the budget are not on the same basis of accounting. The actual financial statement information is therefore presented on a comparable basis to the budget information. The comparison and reconciliation between the statement of financial performance and the budget for the reporting period have been included in the Statement of comparison of budget and actual amounts.

Comparative information is not required with regards to the presentation of budget information.

1.26 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Management is those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm’s length or not in the ordinary course of business are disclosed.

1.27 Committments

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.

Commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:

- approved and contracted commitments;
- where the expenditure has been approved and the contract has been awarded at the reporting date; and
- where disclosure is required by a specific standard of GRAP.

1.28 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

1.29 Grants in aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:
- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of financial performance as expenses in the period that the events giving rise to the transfer occurred.

1.30 Events after the reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the financial statements.

Accounting Policies

1.30 Events after the reporting date (continued)

Events after the reporting date that are classified as non-adjusting events have been disclosed in the notes to the financial statements.

1.31 Value Added Tax

The municipality accounts for value added tax on the payment basis.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

IGRAP 1: Interpretation of GRAP: Applying the Probability Test on Initial Recognition of Exchange Revenue

This interpretation now addresses the manner in which the municipality applies the probability test on initial recognition of both:

(a) exchange revenue (GRAP 9); and
(b) non-exchange revenue (GRAP 23).

All amendments to be applied retrospectively.

The effective date of the interpretation is for the years beginning on or after 01 April 2013.
It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2014 or later periods:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality’s overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

The standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time in the 2017 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 105: Transfers of Functions Between Entities Under Common Control

The objective of this standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

A transfer of functions between entities under common control is a reorganisation and / or reallocation of functions between entities that are ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between entities under common control, the assets and liabilities should be recognised (by the acquirer) at their carrying amounts and should be derecognised (by the transferor) at their carrying amounts.

The difference between the amount of consideration paid or received, if any, and the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

The standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it become effective on 1 April 2015.

The impact of this standard is currently being assessed.

GRAP 106: Transfers of Functions Between Entities not Under Common Control

The objective of this standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control.

A transfer of functions between entities not under common control is a reorganisation and / or reallocation of functions between entities that are not ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between entities not under common control, the assets and liabilities should be recognised (by the acquirer) at their acquisition date fair values.

The difference between the amount of consideration paid, if any, and the carrying amounts of assets acquired and liabilities assumed should be recognised in accumulated surplus / (deficit).

For a transfer of functions between entities not under common control there are some specific recognition and measurement principles and exceptions to the recognition and measurement principles.

The standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective on 1 April 2015.

The impact of this standard is currently being assessed.

GRAP 107: Mergers

The objective of this standard is to establish accounting principles for the combined entity and combining entities in a merger.

A merger is where a new combined entity is started, acquirer can be identified and the conbining entities do not have any control over the combined entity.

In the event of a merger, the assets and liabilities should be recognised (by the combined entity) at their carrying amounts and should be derecognised (by the combining entities) at their carrying amounts.

The difference between the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

The standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective on 1 April 2015.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 20: Related Parties

The objective of this standard is to ensure that a reporting entity’s annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

The municipality (in this standard referred to as the reporting entity) applies this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between the municipality and its related parties;
- identifying the circumstances in which disclosure of the items in bullet one and two is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users’ assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person’s family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard states that a related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- control;
- related party transactions; and
- remuneration of management.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Only transactions with related parties where the transactions are not concluded within normal operating procedures or on terms that are not no more or no less favourable than the terms it would use to conclude transactions with another entity or person are disclosed.

The standard requires that remuneration of management must be disclosed per person and in aggregate.

The standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 32: Service Concession Arrangements: Grantor

The standard applies to a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator providing the mandated function on behalf of the grantor can either be a private party or another public sector entity. The standard applies to the grantor only.

PPP agreements that are governed and regulated in terms of the PFMA and MFMA, are some of the arrangements that fall within the scope of GRAP 32. For any other arrangements that meet the control criteria as set out in paragraph .07 of GRAP 32 the principles in the standard on accounting for such arrangements will apply.

An asset provided by the operator, or an upgrade to an existing asset, is recognised as a service concession asset with a corresponding liability, being the performance obligation, if certain criteria and conditions are met.

The standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective.

The impact of this standard is currently being assessed.

GRAP 108: Statutory Receivables

GRAP 108 only deals with those receivables that arise from legislation or an equivalent means, such as regulations, by-laws or other documents issued in terms of legislation, such as ministerial orders and cabinet or municipal council decisions. Therefore in order to be statutory in nature specific legislation should require the municipality to undertake the transactions, such as outlining who should be taxed and at what rates and amounts.

Statutory receivables are not contractual receivables, the latter of which would normally meet the definition of a financial asset and will be within the scope of the Standard of GRAP on Financial Instruments. Statutory receivables are not voluntarily entered into as with contractual receivables because they arise as a result of specific legislative requirements.

Statutory receivables are initially measured at their transaction amount and subsequently using the cost method.

Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:
- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

The standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

This interpretation provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this interpretation need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

This interpretation concludes on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The interpretation has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the interpretation for the first time once it becomes effective.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

GRAP 5 (revised 2013): Borrowing Costs

Benchmark treatment is to recognise borrowing costs as an expense.

Allowed alternative is to capitalise borrowing costs it if is attributable to the acquisition, construction or production of a qualifying asset. All other instances, expense borrowing costs.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2014.

The municipality expects to adopt the amendment for the first time in the 2015 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 100 (revised 2013): Discontinued Operations

All accounting, presentation and disclosure requirements with regards to non-current assets held for sale (or disposal groups) have been deleted. The impact of the amendments is:

- Will no longer be required to reclassify assets as held for sale. GRAP 100 now only deals with discontinued operations.
- Certain disclosure must be made if, at the reporting date, management has taken a decision to dispose of a significant asset or a group of assets and liabilities. Will fall under the Standard of GRAP on Presentation of Financial Statements.

Measurement requirements are to be applied prospectively and presented and disclosure requirements are to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2014.

The municipality expects to adopt the amendment for the first time in the 2015 annaul financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

3. Cash and cash equivalents

Cash and cash equivalents consist of:

	2014	2013
Cash on hand	-	1,008
Bank balances	983,305	553,913
Short-term deposits	902,539	108,610
	1,885,844	**663,531**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2014	**30 June 2013**	**30 June 2012**	**30 June 2014**	**30 June 2013**	**30 June 2012**
ABSA Bank Ltd - Current account - 23 6000 0012	29,195	168,048	685,221	29,195	168,048	685,221
ABSA Bank Ltd - Current account - 9198 592 469	-	-	8,950	-	-	8,950
FNB Bank Ltd - Cheque account - 5164 001 1783	954,111	385,865	2,555,480	954,111	385,865	2,555,480
ABSA Bank Ltd - Call account - 9103 862 998	846,604	6,400	2,072	846,604	6,400	2,072
ABSA Bank Ltd - Call account Type - 9167 907 774	1,997	30,269	3,957	1,997	30,269	3,957
ABSA Bank Ltd - Call account - 9120 314 689	-	-	51,861	-	-	51,861
ABSA Bank Ltd - Call account - 9081 226 121	1,224	19,811	1,115,951	1,224	19,811	1,115,951
ABSA Bank Ltd - Call account - 9116 410 431	6,258	6,070	495,779	6,258	6,070	495,779
ABSA Bank Ltd - Call account - 9057 274 100	-	-	15,581	-	-	15,581
ABSA Bank Ltd - Fixed Deposit account - 1049 840 267	-	-	14,000	-	-	14,000
ABSA Bank Ltd - Savings account - 9074 038 460	-	-	4,308	-	-	4,308
FNB Bank Ltd - Money Market account - 6206 606 4793	46,455	46,061	45,268	46,455	46,061	45,268
Total	**1,885,844**	**662,524**	**4,998,428**	**1,885,844**	**662,524**	**4,998,428**

4. Receivables from exchange transactions

	2014	2013
Gross balances		
Electricity	6,472,980	5,812,909
Refuse	32,304,555	27,295,581
Admin, sundry and housing	10,578,127	9,654,774
	49,355,662	**42,763,264**
Less: Allowance for impairment		
Electricity	(3,365,397)	(3,852,048)
Refuse	(28,163,529)	(24,975,322)
Admin, sundry and housing	(8,881,799)	(8,435,467)
	(40,410,725)	**(37,262,837)**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

4. Receivables from exchange transactions (continued)

Net balance		
Electricity	3,107,583	1,960,861
Refuse	4,141,026	2,320,259
Admin, sundry and housing	1,696,328	1,219,307
	8,944,937	**5,500,427**

Electricity		
Current (0 -30 days)	1,719,428	1,493,759
31 - 60 days	285,692	294,706
61 - 90 days	248,801	178,799
91 - 120+ days	4,219,059	3,845,646
Less: allowance for impairment	(3,365,397)	(3,852,049)
	3,107,583	**1,960,861**

Refuse		
Current (0 -30 days)	946,606	1,008,541
31 - 60 days	527,130	473,028
61 - 90 days	517,031	460,599
91 - 120+ days	30,313,789	25,353,414
Less: allowance for impairment	(28,163,530)	(24,975,323)
	4,141,026	**2,320,259**

Admin, sundry and housing		
Current (0 -30 days)	118,254	192,233
31 - 60 days	99,612	93,624
61 - 90 days	99,099	92,948
91 - 120+ days	10,261,162	9,275,968
Less: allowance for impairment	(8,881,799)	(8,435,466)
	1,696,328	**1,219,307**

Figures in Rand	2014	2013

4. Receivables from exchange transactions (continued)

Summary of debtors by customer classification

Consumers		
Current (0 -30 days)	668,572	488,821
31 - 60 days	268,504	237,307
61 - 90 days	265,616	227,063
91 - 120 days	18,379,299	14,909,084
	19,581,991	15,862,275
Less: Allowance for impairment	(17,387,414)	(14,852,311)
	2,194,577	**1,009,964**
Industrial/ commercial		
Current (0 -30 days)	527,321	340,518
31 - 60 days	114,736	138,737
61 - 90 days	85,497	117,860
91 - 120 days	2,254,585	2,121,323
	2,982,139	2,718,438
Less: Allowance for impairment	(1,680,329)	(2,084,268)
	1,301,810	**634,170**
National and provincial government		
Current (0 -30 days)	1,510,975	851,801
31 - 60 days	505,351	568,251
61 - 90 days	490,077	491,949
91 - 120 days	23,183,040	21,337,128
	25,689,443	23,249,129
Less: Allowance for impairment	(20,985,641)	(19,976,669)
	4,703,802	**3,272,460**
Churches		
Current (0 -30 days)	28,454	15,572
31 - 60 days	7,765	7,993
61 - 90 days	7,502	6,434
91 - 120+ days	199,912	178,261
	243,633	208,260
Less: Allowance for impairment	(177,593)	(164,334)
	66,040	**43,926**
Councillors		
Current (0 -30 days)	1,606	872
31 - 60 days	80	56
61 - 90 days	80	-
91 - 120+ days	1,042	-
	2,808	928
Less: Allowance for impairment	(749)	(227)
	2,059	**701**
Municipality		
Current (0 -30 days)	47,617	28,574
31 - 60 days	15,995	15,869
61 - 90 days	16,159	17,971
91 - 120+ days	775,876	648,856

Figures in Rand	2014	2013

4. Receivables from exchange transactions (continued)

	855,647	711,270
Less: Allowance for impairment	(177,593)	(183,859)
	678,054	**527,411**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(37,262,837)	(27,342,704)
Contributions to allowance	(3,147,888)	(9,920,133)
	(40,410,725)	**(37,262,837)**

Credit quality of receivables from exchange transactions

The credit quality of receivables from exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings or to historical information about counterparty default rates:

Receivables from exchange transactions past due but not impaired

Receivables from exchange transactions which are less than 2 months past due are not considered to be impaired. At 30 June 2014, R 3,698,722 (2013: R 3,555,891) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	2,784,288	2,694,533
2 months past due	914,434	861,358

Receivables from exchange transactions impaired

As of 30 June 2014, receivables from exchange transactions of R 45,658,942 (2013: R 39,207,376) were impaired and provided for.

The amount of the allowance was R 40,410,724 as of 30 June 2014 (2013: R 37,262,837).

The ageing of these receivables is as follows:

3 to 6 months	864,931	732,346
Over 6 months	44,794,011	38,475,030

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

5. Receivables from non-exchange transactions

Property rates	2,979,803	2,091,934
Traffic fines	51,380	24,360
	3,031,183	**2,116,294**

Property rates		
Current (0 - 30 days)	453,320	432,487
31 - 60 days	219,249	177,650
61 - 90 days	203,762	165,923
91 - 120+ days	13,324,622	12,014,575
Less: allowance for impairment	(11,221,150)	(10,698,701)
	2,979,803	**2,091,934**

Traffic fines		
Current (0 - 30 days)	8,981	11,834
31 - 60 days	16,321	25,427
61 - 90 days	14,421	16,723
91 - 120+ days	327,277	120,016
Less: allowance for impairment	(315,620)	(149,640)
	51,380	**24,360**

Credit quality of receivables from non-exchange transactions

The credit quality of receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by historical information about counterparty default rates:

Receivables from non-exchange transactions past due but not impaired

Receivables from non-exchange transactions which are less than 2 months past due are not considered to be impaired. At 30 June 2014, R 697,871 (2013: R 647,398) were past due but not impaired.

At 30 June 2014, receivables from non-exchange transactions amounting to R 697,871 (2013: R 647,398) were past due but not considered to be impaired.

The ageing of amounts past due but not impaired are as follows:

1 month past due	462,301	444,321
2 months past due	235,570	203,077

Receivables from non-exchange transactions impaired

As of 30 June 2014, receivables from non-exchange transactions of R 13,870,082 (2013: R 12,317,235) were impaired and provided for.

The amount of the allowance for impairment was R 11,515,011 as of 30 June 2014 (2013: R 10,816,296).

The ageing of these receivables are as follows:

3 to 6 months	218,183	182,646
Over 6 months	13,651,899	12,134,589

Reconciliation of allowance for impairment

Opening balance	(10,848,341)	(10,858,680)
Provision for impairment	(688,429)	10,339
	(11,536,770)	**(10,848,341)**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

6. Inventories

	2014	2013
Maintenance materials	497,051	605,975

Inventory pledged as security

Inventory is not pledged as security.

7. VAT receivable

	2014	2013
Value-added taxation	860,821	38,796

VAT is payable on the payment basis.

8. Operating lease asset (accrual)

	2014	2013
Current assets	5,261	-
Current liabilities	-	(11,526)
Present value of minimum lease payments	**5,261**	**(11,526)**

9. Property, plant and equipment

	2014			2013		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	54,747,700	-	54,747,700	54,747,700	-	54,747,700
Buildings	4,186,955	(418,696)	3,768,259	4,186,955	(279,131)	3,907,824
Infrastructure	153,229,321	(29,973,787)	123,255,534	143,701,016	(29,971,799)	113,729,217
Community	22,674,253	(1,583,301)	21,090,952	22,674,253	(1,583,301)	21,090,952
Other assets	5,921,827	(2,060,762)	3,861,065	5,016,906	(1,469,393)	3,547,513
Total	**240,760,056**	**(34,036,546)**	**206,723,510**	**230,326,830**	**(33,303,624)**	**197,023,206**

Reconciliation of property, plant and equipment - 2014

	Opening balance	**Additions**	**Depreciation**	**Total**
Land	54,747,700	-	-	54,747,700
Buildings	3,907,824	-	(139,565)	3,768,259
Infrastructure	113,729,217	9,528,305	(1,988)	123,255,534
Community	21,090,952	-	-	21,090,952
Other assets	3,547,513	904,921	(591,369)	3,861,065
	197,023,206	**10,433,226**	**(732,922)**	**206,723,510**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Depreciation	Total
Land	54,747,700	-	-	54,747,700
Buildings	4,047,390	-	(139,566)	3,907,824
Infrastructure	119,238,523	2,059,391	(7,568,697)	113,729,217
Community	20,724,924	420,505	(54,477)	21,090,952
Other assets	3,794,836	256,716	(504,039)	3,547,513
	202,553,373	**2,736,612**	**(8,266,779)**	**197,023,206**

Pledged as security

Carrying value of assets pledged as security:

	2014	2013
Other assets	495,511	674,371

The municipality does not hold any water or sewer infrastructure as this function falls under Amatole District Municipality.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

10. Investment property

	2014			2013		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	20,308,100	(507,851)	19,800,249	20,308,100	(253,926)	20,054,174

Reconciliation of investment property - 2014

	Opening balance	Depreciation	Total
Investment property	20,054,174	(253,925)	19,800,249

Reconciliation of investment property - 2013

	Opening balance	Depreciation	Total
Investment property	20,308,100	(253,926)	20,054,174

Pledged as security

Investment property is not pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

11. Intangible assets

	2014			2013		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software	33,688	(24,613)	9,075	27,348	(17,080)	10,268

Reconciliation of intangible assets - 2014

	Opening balance	Additions	Amortisation	Total
Computer software	10,268	6,340	(7,533)	9,075

Reconciliation of intangible assets - 2013

	Opening balance	Amortisation	Total
Computer software	13,684	(3,416)	10,268

Pledged as security

Intangible assets are not pledged as security:

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

12. Heritage assets

	2014			2013		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Historical monuments	43,632	-	43,632	43,632	-	43,632

Reconciliation of heritage assets 2014

	Opening balance	Total
Historical monuments	43,632	43,632

Reconciliation of heritage assets 2013

	Opening balance	Total
Historical monuments	43,632	43,632

Pledged as security

Heritage assets are not pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

13. Finance lease obligation

Minimum lease payments due		
- within one year	243,067	198,287
- in second to fifth year inclusive	302,003	523,163
	545,070	721,450
less: future finance charges	(61,274)	(109,073)
Present value of minimum lease payments	**483,796**	**612,377**

It is municipality policy to lease certain equipment under finance leases.

The average lease term was 2 years and the average effective borrowing rate was prime.

Interest rates are fixed at the contract date. All leases have fixed repayments.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 9.

14. Payables from exchange transactions

Trade payables	37,521,526	13,629,140
Other payables	1,029,612	4,184,433
Accrued leave pay	1,723,287	1,602,598
Accrued bonus	426,815	400,082
Payments made in advance	3,553,176	3,317,267
Accrued employee costs	1,204,767	541,310
	45,459,183	**23,674,830**

The increase from prior year to current year is a direct result of the municipality having tremendous financial constraints. The financial contraints have been made worse by electricity theft which resulted in distribution losses.

15. Consumer deposits

Electricity	392,286	375,445

16. Retirement benefit obligations

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(3,131,000)	(3,489,000)
Non-current liabilities	(2,549,000)	(2,907,000)
Current liabilities	(582,000)	(582,000)
	(3,131,000)	**(3,489,000)**

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	3,489,000	3,145,000
Net expense recognised in the statement of financial performance	(358,000)	344,000
	3,131,000	**3,489,000**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

16. Retirement benefit obligations (continued)

Net expense recognised in the statement of financial performance

Current service cost	296,000	250,000
Benefits paid	-	(19,000)
Interest cost	286,000	258,000
Actuarial (gains) losses	(940,000)	(145,000)
	(358,000)	**344,000**

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	8.94 %	7.89 %
Medical cost trend rates	1.00 %	1.00 %
Average retirement age	63	63

The discount rate was set as the yield of the R209 South African Government Bond as at the valuation date. The actual yield on the R209 bond was sourced from the RMB Global Markets website on 30 June 2014.

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	50,000	(47,000)
Effect on defined benefit obligation	600,000	(570,000)

17. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Integrated National Electrification Grant	851,079	-
Extended Public Works Programme Grant	-	9,820
Financial Management Grant	-	(39,113)
Municipal Infrastructure Grant	2,391,308	3,336,011
Municipal Systems Improvement Grant	7,594	7,552
	3,249,981	**3,314,270**

Movement during the year

Balance at the beginning of the year	3,314,270	3,725,867
Additions during the year	37,994,400	34,563,990
Income recognition during the year	(38,088,561)	(34,975,587)
Overspent portion expensed	29,872	-
	3,249,981	**3,314,270**

The unspent grant balance relates to the MIG grant, being unspent in the prior years. The unspent portion is going to be deducted in three installments from the equitable share.

See note 23 for reconciliation of grants from National/Provincial Government.

18. Provision

Reconciliation of provision - 2014

	Opening Balance	Additions	Reversed during the year	Total
Landfill rehabilitation provision	-	809,662	-	809,662
Closure liability	4,310,897	-	(4,310,897)	-
	4,310,897	**809,662**	**(4,310,897)**	**809,662**

Reconciliation of provision - 2013

	Opening Balance	Additions	Total
Closure liability	4,066,884	244,013	4,310,897

	2014	2013
Non-current liabilities	560,643	-
Current liabilities	249,019	4,310,897
	809,662	**4,310,897**

Landfill rehabilitation provision:

The provision represents the municipality's estimated obligation at 30 June 2014 to restore the landfill site at the end of its useful life, estimated to be: Adelaide - 29 years, Bedford - 94 years. The amount of rehahilitation is dependent on future costs, technology, inflation and site consumption. The discount rate of the provision was 3.96%.

Closure liability:

The landfill sites were operating illegally in the prior year without the required permits and registrations. Due to the unavailability of the information regarding the landfill sites and the fact that they were not permitted as required, the municipality had raised a liability to rehabilitate the land.

19. Long service award liability

The municipality provides long service benefits, they are awarded in the form of leave days, awarded once an employee has completed a certain number of years service.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carred out at 30 June 2014 by ZAQEN Consultants and Actuaries. The present value of the defined benefit obligation, and the related current service cost and past service plan service cost, were measured using the Projected Unit Credit Funding Method.

The amounts recognised in the statement of financial position are as follows:

	2014	2013
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(931,000)	(1,029,000)

	2014	2013
Non-current liabilities	(754,000)	(837,000)
Current liabilities	(177,000)	(192,000)
	(931,000)	**(1,029,000)**

Changes in the present value of the defined benefit obligation are as follows:

	2014	2013
Net expense recognised in the statement of financial performance		
Current service cost	113,000	94,000
Benefits paid	(168,465)	(38,928)
Interest cost	79,000	69,000
Actuarial (gains) losses	(121,535)	60,928

Figures in Rand	2014	2013

19. Long service award liability (continued)

	(98,000)	185,000

Key assumptions used

Assumptions used at the reporting date:		
Discount rates used	7.96 %	7.89 %
Medical cost trend rates	1.00 %	1.00 %
Average retirement age	63	63

The discount rate was set as the yield of the R208 South African Government Bond as the valuation date. The actual yield on the R208 and R197 bond was sourced from the RMB Global Markets website on 30 June 2014.

Other assumptions

Assumed healthcare cost trend rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trend rates would have the following effects:

	One percentage point increase	**One percentage point decrease**
Effect on the aggregate of the service cost and interest cost	(14,000)	5,000
Effect on defined benefit obligation	(63,000)	70,000

The accrued liability is determined on the basis that each employee's long service benefit accrues uniformly over the working life of an employee up to the end of the interval at which the benefit becomes payable. Further it is assumed that the current policy for awarding long service awards remains unchanged in the future.

20. Revenue

Fines	223,500	202,900
Government grants & subsidies	38,088,562	34,975,587
Interest received - consumers	2,512,671	2,707,673
Licences and permits	2,157,880	1,953,220
Other revenue	5,853,614	4,025,901
Property rates	3,214,734	3,093,783
Rental of facilities and equipment	152,847	116,908
Service charges	21,488,718	18,912,263
Admin, sundry charges	950,746	1,032,137
	74,643,272	**67,020,372**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Interest received - consumers	2,512,671	2,707,673
Licences and permits	2,157,880	1,953,220
Other revenue	5,853,614	4,025,901
Rental of facilities and equipment	152,847	116,908
Service charges	21,488,718	18,912,263
Admin, sundry charges	950,746	1,032,137
	33,116,476	**28,748,102**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	3,214,734	3,093,783
Transfer revenue		
Government grants & subsidies	38,088,562	34,975,587
Fines	223,500	202,900
	41,526,796	**38,272,270**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

21. Service charges

Sale of electricity	17,155,056	14,949,895
Refuse removal	4,333,662	3,962,368
	21,488,718	**18,912,263**

22. Property rates

Rates received

Property rates	3,214,734	3,093,783

Valuations

Residential	257,307,490	257,307,490
Commercial	63,526,000	63,526,000
State	29,670,800	29,670,800
Municipal	1,846,615	1,846,615
Small holdings and farms	635,870,284	635,870,284
	988,221,189	**988,221,189**

The municipality's policy requires that valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2009. Interim valuations are required to be processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. Due to financial constraints, the municipality applied for a one year extension to complete the general valuation roll. The new valuation roll will come into effect on 1 July 2014.

Figures in Rand	2014	2013

23. Government grants and subsidies

Equitable share	18,237,417	17,359,543
Library subsidies	522,000	522,000
Indingent subsidy	4,069,583	3,623,456
Integrated National Electrification Grant	748,921	-
Local Economic Development Subsidy	117,400	-
Municipal Infrastructure Grant	10,852,704	10,183,803
Extended Public Works Programme Grant	1,009,900	990,180
Financial Management Grant	1,640,679	1,500,000
Municipal Systems Improvement Grant	889,958	796,605
	38,088,562	**34,975,587**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	16,915,400	15,029,000
Unconditional grants received	21,079,000	18,925,000
	37,994,400	**33,954,000**

Equitable Share

Indigent subsidy

Current - year receipts	4,069,583	3,623,456
Conditions met - transferred to revenue	(4,069,583)	(3,623,456)
	-	**-**

Conditions still to be met - remain liabilities (see note 17).

In terms of the Constitution, this grant is used to subsidise the provision of basic and administrative services to indigent community members and to subsidise income.

Integrated National Electrification Grant

Current - year receipts	1,600,000	-
Conditions met - transferred to revenue	(748,921)	-
	851,079	**-**

Conditions still to be met - remain liabilities (see note 17).

The purpose is to implement the Integrated National Electrification Programme (INEP) by providing capital subsidies to Eskom to address the electrification backlog of occupied residential dwellings, the installation of bulk infrastructure and rehabilitation and refurbishment of electricity infrastructure in order to improve quality of supply.

Plans need to have undergone pre-engineered project feasibility approval. The projects must be prioritised by municipalities in their Integrated Development Plans (IDPs) and supporting letters provided to demonstrate municipalities are in agreement with projects to be undertaken.

Library subsisy

Current - year receipts	522,000	522,000
Conditions met - transferred to revenue	(522,000)	(522,000)
	-	**-**

Figures in Rand	2014	2013

23. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 17).

Provided for the sole purpose to fund the running of the library.

Local Economic Development subsidy

Current - year receipts	117,400	-
Conditions met - transferred to revenue	(117,400)	-
	-	**-**

Conditions still to be met - remain liabilities (see note 17).

To assist the municipality to employ an LED assistant, to drive the municipal LED programme.

Extended Public Works Programme (EPWP)

Balance unspent at beginning of year	9,820	-
Current - year receipts	1,000,000	1,000,000
Conditions met - transferred to revenue	(1,009,900)	(990,180)
Overspent portion expensed	80	-
	-	**9,820**

Conditions still to be met - remain liabilities (see note 17).

EPWP projects must comply with the project selection criteria determined in the 2012 EPWP Grant Manual; the EPWP guidelines set by the Department of Public Works (DPW) and the Ministerial Determination as updated annually on 1 November each year.

The EPWP grant can only be utilised for EPWP purposes, for the projects approved in each municipality's EPWP project list.

Financial Management Grant

Balance unspent at beginning of year	(39,113)	(20,113)
Current - year receipts	1,650,000	1,500,000
Conditions met - transferred to revenue	(1,640,679)	(1,500,000)
Withheld - equitable share	-	(19,000)
Overspent portion expensed	29,792	-
	-	**(39,113)**

Conditions still to be met - remain liabilities (see note 17).

To promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act (MFMA)

The municipality must establish a Budget and Treasury Office (BTO) with positions filled by appropriately qualified personnel and must appoint at least five interns over a multi-year period.

Municipal Infrastructure Grant (MIG)

Balance unspent at beginning of year	3,336,011	3,599,814
Current - year receipts	11,136,000	11,729,000
Conditions met - transferred to revenue	(10,852,703)	(10,183,803)
Witheld - equitable share	(1,228,000)	(1,809,000)
	2,391,308	**3,336,011**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

23. Government grants and subsidies (continued)

The unspent grant balance relates to under utilization in the prior years. The unspent portion is going to be deducted in three installments from the equitable share. The unspent portion for MIG for the current year is R283 297. This portion remains a liability - (see note 17).

Receiving officers must ensure appropriate programme and project planning and implementation readiness prior to the year of implementation and must be informed by the Integrated Development Plan (IDP) (Chapter 5 of the Municipal Systems Act, 2000) and a three year capital plan.

The municipality must prioritise basic residential infrastructure for water, sanitation, roads, refuse removal, streets lighting, connector and internal bulk infrastructure, and other municipal infrastructure like sport and recreation and community facilities in line with the MIG 2004 policy framework and/or other government sector policies.

Municipalities must use labour-intensive construction methods in terms of EPWP guidelines.

Municipal Systems Improvement Grant (MSIG)

	2014	2013
Balance unspent at beginning of year	7,552	234,157
Current - year receipts	890,000	800,000
Conditions met - transferred to revenue	(889,958)	(796,605)
Witheld - equitable share	-	(230,000)
	7,594	**7,552**

Conditions still to be met - remain liabilities (see note 17).

Municipalities must submit a signed activity plan in the prescribed format with detailed budgets and time frames for the implementation of prioritised measureable outputs.

24. Investment revenue

	2014	2013
Interest revenue		
Bank	36,508	172,666
Interest charged on trade and other receivables	2,476,163	2,535,007
	2,512,671	**2,707,673**

25. Rental income

	2014	2013
Facilities and equipment		
Rental of facilities	152,847	116,908

26. Other revenue

	2014	2013
Actuarial (gain) / loss on employee benefits	1,061,535	84,072
Closure liability	3,864,387	-
Recoveries: overprovision of prior year expenses	-	3,564,287
Donations in kind: Amatole District Municipality	530,500	-
Clearance and valuation certificates	23,033	15,597
Sundry income	3,935	4,806
Building plans	23,701	43,851
Commission: motor registrations	250,291	209,631
Pound fees	8,077	6,937
Burial fees	104,842	96,720
	5,870,301	**4,025,901**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

27. Employee related costs

Basic	15,285,138	13,900,976
Bonus	1,190,264	1,385,051
Unemployment insurance fund	3,064,694	3,368,961
Compensation commissioner	1,024,433	600,263
Skills development levies	92,653	99,501
Defined contribution plans	409,000	344,000
Travel, motor car, accommodation, subsistence and other allowances	305,905	745,390
Overtime payments	4,038	2,784
Housing benefits and allowances	20,748	33,096
Ward committees	360,390	293,600
Learnerships	66,500	-
Actuarial benefits paid	(168,465)	(57,928)
	21,655,298	**20,715,694**

Remuneration of S Caga - Municipal Manager

Annual Remuneration	840,000	666,667
Employer's Contributions to UIF	1,785	1,463
	841,785	**668,130**

Remuneration of N Dolonga (Suspended March 2012) - Chief Finance Officer

Annual Remuneration	33,899	203,396
Travel Allowance	25,424	152,547
Other Allowances	123,054	101,698
Employer's Contributions to UIF	297	52,561
	182,674	**510,202**

Remuneration of N Marambana (Appointed November 2013) - Chief Finance Officer

Annual Remuneration	338,993	-
Employer's Contributions to UIF	1,189	-
	340,182	**-**

Remuneration of B Rosi (Suspended March 2012) - Technical Services Director

Annual Remuneration	-	153,512
Other Allowances	-	168,162
Employer's Contributions to UIF	-	1,320
	-	**322,994**

Remuneration of M Kashe (Appointed January 2014) - Technical Services Director

Annual Remuneration	224,948	-
Employer's Contributions to UIF	744	-
	225,692	**-**

The post of Technical Services Director was vacant for April 2012 to December 2013.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

27. Employee related costs (continued)

Remuneration of T Klaas (Resigned September 2013) - Human Resource Director

Annual Remuneration	70,433	268,317
Leave Pay	32,118	-
Acting Allowances	-	33,127
Employer's Contributions to UIF	294	1,190
	102,845	**302,634**

Remuneration of M Msakatya (Appointed January 2014) - Human Resource Director

Annual Remuneration	251,519	-
Employer's Contributions to UIF	744	-
	252,263	**-**

The post for Human Resource Director was vacant for October 2013 to December 2013.

The remuneration of staff is within the upper limits of the SALGA Bargaining Council determinations.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

28. Remuneration of councillors

Executive Mayor	640,640	624,332
Councillors	1,464,896	1,407,517
	2,105,536	**2,031,849**

Mayor - Bruintjies LL		
Mayoral Allowance	466,090	454,345
Telephone Allowance	20,287	18,872
Travel Allowance	154,263	151,115
	640,640	**624,332**

Councillor - Auld CA		
Councillor Allowance	142,137	136,004
Telephone Allowance	15,926	12,396
Travel Allowance	46,279	45,335
	204,342	**193,735**

Councillor - De Lange G (Deceased March 2014)		
Councillor Allowance	93,336	136,004
Telephone Allowance	8,970	12,396
Travel Allowance	30,412	45,335
	132,718	**193,735**

Councillor - Jack P		
Councillor Allowance	199,275	174,538
Telephone Allowance	15,926	12,396
Travel Allowance	39,026	58,179
	254,227	**245,113**

Councillor - Lombard E		
Councillor Allowance	142,137	136,004
Telephone Allowance	15,926	12,396
Travel Allowance	46,279	45,335
	204,342	**193,735**

Councillor - Maloni QP		
Councillor Allowance	162,812	136,004
Telephone Allowance	15,926	12,396
Travel Allowance	26,445	45,335
	205,183	**193,735**

Councillor - Mentoor BP		
Councillor Allowance	142,978	136,004
Telephone Allowance	15,926	12,396
Travel Allowance	46,279	45,335
	205,183	**193,735**

Figures in Rand			2014	2013
28. Remuneration of councillors (continued)				
Councillor - Ndyambo S				
Councillor Allowance			142,978	136,004
Telephone Allowance			15,926	12,396
Travel Allowance			46,279	45,335
	-	-	-	-
	-	-	-	-
			205,183	**193,735**
Councillor - Douglas LJ (elected: April 2014)				
Councillor Allowance			36,601	-
Telephone Allowance			5,217	-
Travel Allowance			11,900	-
			53,718	**-**

Remuneration of political office-bearers and councillors

The remuneration of the political office-bearers and councillors are within the upper limits as determined by the framework envisaged in section 219 of the Constitution.

29. Debt impairment

	2014	2013
Debt impairment	3,836,317	10,502,859
Bad debt written off	17,282	-
	3,853,599	**10,502,859**

An additional report was found to be available in the prior year which allowed the municipality to make improved allocations of consumers into risk categories. This led to the increase in the number of consumers classified as high risk which resulted in an increase in the impaiment for the prior year.

30. Depreciation and amortisation

	2014	2013
Property, plant and equipment	994,381	9,184,024

31. Finance costs

	2014	2013
Finance leases	36,520	1,846
Finance charges - actuarial	365,000	327,000
Interest on trade payables	773,784	8,351
	1,175,304	**337,197**

32. Bulk purchases

	2014	2013
Electricity	23,445,206	19,731,836

Electricity losses

Nxuba Local Municipality experienced an above average electricity loss of R9 145 645 (42.69%) for the 2013/2014 financial year (2013:R7 898 662 (38.84%). The loss can be ascribed to the fact that there are illegal connections. These matters have been investigated. A project is underway to replace the meters with new technology that will reduce the illegal connections.

The losses can also be attributed to aged infrastructure, financial contraints don't allow for repairs to infrustructure.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

33. Contracted services

Consultants	5,816,977	443,684

The municipality's audit opinion was a disclaimer for the past 3 years. A professional consultant was appointed. The professional consultants were appointed to assist with resolving audit queries, preparation of the financial statements and to address the skills shortage of the municipality staff.

34. Grants and subsidies paid

Other subsidies		
Financial Management Grant Expenses	1,670,471	1,478,618
Municipal Systems Improvement Grant Expenses	889,958	548,807
Extended Public Works Programme Grant Expenses	1,009,980	990,180
Integrated National Electrification Grant	656,948	-
	4,227,357	**3,017,605**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

35. General expenses

Advertising	277,395	203,234
Audit committee	99,481	118,288
Auditors fees	2,603,826	3,343,608
Awareness campaign project	11,941	19,713
Bank charges	250,141	149,130
Bedford garden festival	250,000	249,601
Cleaning	269,676	148,818
Closure liability	-	244,013
Computer expenses	387,010	73,828
Conferences and seminars	5,490	2,940
Department of transport	954,899	-
Entertainment	17,708	47,543
Fines and penalties	(14,879)	-
Fuel and oil	701,287	559,881
Hire	369,812	254,830
IDP review	22,284	34,450
IGR forums	14,650	-
Insurance	513,362	553,238
LED forum	5,000	10,000
Landfill rehabilitation provision	165,864	-
Legal expenses	426,482	899,988
Mayor's fund	14,000	35,202
Motor vehicle expenses	2,567	-
Postage and courier	269,113	271,519
Pound fees	4,474	2,696
Printing and stationery	87,037	25,062
Protective clothing	59,426	85,517
Public participation	15,900	22,377
Refuse bags	14,227	31,556
Special program unit	25,140	50,281
Staff welfare	46,783	123,563
Stores and materials	(314,782)	(112,094)
Subscriptions and membership fees	505,368	196,768
Telephone and fax	705,669	704,167
Tourism	22,597	53,618
Training	318,814	101,278
Travel - local	699,195	676,909
Tree felling	-	43,794
Water purchases	2,565,835	2,170,696
Zoning scheme	87,450	-
	12,460,242	**11,396,012**

36. Auditors' fees

Fees	2,603,826	3,343,608

37. Financial instruments disclosure

Categories of financial instruments

2014

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	8,944,937	8,944,937
Other receivables from non-exchange transactions	3,031,183	3,031,183

Figures in Rand	2014	2013

. Financial instruments disclosure (continued)

Cash and cash equivalents	1,885,844	1,885,844
	13,861,964	**13,861,964**

Financial liabilities

	At amortised cost	Total
Finance lease liability	483,796	483,796
Unspent conditional grants	3,249,981	3,249,981
Trade and other payables from exchange transactions	45,459,182	45,459,182
Consumer deposits	392,286	392,286
Retirement benefit obligation	3,131,000	3,131,000
Long service award	931,000	931,000
	53,647,245	**53,647,245**

2013

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	5,500,427	5,500,427
Other receivables from non-exchange transactions	2,116,294	2,116,294
Cash and cash equivalents	663,531	663,531
	8,280,252	**8,280,252**

Financial liabilities

	At amortised cost	Total
Finance lease liability	606,628	606,628
Unspent conditional grants	3,314,270	3,314,270
Trade and other payables from exchange transactions	23,674,829	23,674,829
Consumer deposits	375,445	375,445
Retirement benefit obligation	3,489,000	3,489,000
Long service liability	1,029,000	1,029,000
	32,489,172	**32,489,172**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

38. Cash generated from operations

	2014	2013
Deficit	(1,900,052)	(10,643,497)
Adjustments for:		
Depreciation and amortisation	994,381	9,184,024
Finance costs - Finance leases	36,520	-
Debt impairment	3,853,599	10,502,859
Movements in operating lease assets and accruals	(16,787)	(112,983)
Movements in retirement benefit assets and liabilities	(358,000)	344,000
Movements in provisions	(3,599,236)	277,343
Changes in working capital:		
Inventories	108,924	(306,286)
Consumer receivables	(7,298,109)	(6,199,296)
Other receivables from non-exchange transactions	(914,889)	-
Payables from exchange transactions	21,784,353	2,495,940
VAT	(822,025)	(18,059)
Unspent conditional grants and receipts	(64,289)	(499,587)
Consumer deposits	16,841	15,426
	11,821,231	**5,039,884**

39. Commitments

Authorised expenditure

Already contracted for but not provided for	2014	2013
• Capital Expenditure: Property, plant and equipment	3,904,311	9,946,606
• Operational Expenditure: Professional services	2,538,644	5,892,808
	6,442,955	**15,839,414**

This committed expenditure relates to plant and equipment and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated, etc.

40. Contingencies

Litigation is in the process against the municipality relating to a labour dispute for the review of non appointment. Should the municipality be unable to defend this dispute it will result in a potential obligation of R200 000.

The municipality is reviewing an arbitration award, as well as apposing an application to enforce the award and dismiss the review application, the potential obligation amount to R300 000.

41. Related parties

Relationships

Members of key management	Refer to the employee cost note 26

Figures in Rand	2014	2013

42. Prior period errors

The prior year has been amended to account for prior period errors.

Below is a description of each individual prior period error followed by a summary of the total effect of the prior period errors on the amounts previously disclosed.

1. Implementation of GRAP23 - Traffic fines

GRAP23 has been retrospectively implemented for the recognition of traffic fines on the accrual basis. The probability of recovery was assessed and the impairment allowance was provided for.

The effect of this adjustment on the prior year is as follows:

Adjustments affecting the statement of financial position		
Trade receivables from non-exchange transactions	-	24,360

Adjustments affecting the statement of financial performance		
Fines	-	(174,000)
Impairment	-	149,640
	-	**(24,360)**

2. Intangible Assets incorrectly stated

The intangible asset register was reconstructed in terms of Directive 7 and had to be accounted for in the accounting records to agree to the asset register.

The effect of these adjustments on the prior year are as follows:

Adjustments affecting the statement of financial position		
Property, plant and equipment	-	9,248
Accumulated surplus	-	(11,640)
	-	**(2,392)**

Adjustments affecting the statement of financial performance		
Depreciation	-	2,392

3. Other Assets

The moveable asset register was reconstructed in terms of Directive 7 and had to be accounted for in the accounting records to agree to the asset register.

The effect of this adjustment on the prior year is as follows:

Adjustments affecting the statement of financial position		
Property, plant and equipment	-	2,518,863
Accumulated surplus	-	(2,665,714)
	-	**(146,851)**

Adjustments affecting the statement of financial performance		
Depreciation	-	258,945
Expenses	-	(112,094)
	-	**146,851**

4. Impairment on trade receivables

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

42. Prior period errors (continued)

An additional report was found to be available which allowed the municipality to make improved allocations of consumers into risk categories. This led to the increase in the number of consumers classified as high risk. The impairment was therefore adjusted to take into account the impact of this report.

Adjustments affecting the statement of financial position		
Trade receivables on exchange transactions	-	(7,677,248)
Trade receiveables on non-exchange transactions	-	(2,587,674)
	-	**(10,264,922)**

Adjustments affecting the statement of financial performance		
Impairment	-	10,264,922

5. Leases

Operating leases reclassified as finance leases.

The effect of these adjustments on the prior year are as follows:

Adjustments affecting the statement of financial position		
Property, plant and equipment	-	653,873
Finance lease liability	-	(580,332)
Accumulated surplus	-	(88,298)
	-	**(14,757)**

Adjustments affecting the statement of financial performance		
Depreciation	-	163,468
Finance charges	-	(164)
Other revenue	-	(151,670)
Expenses	-	3,123
	-	**14,757**

6. Land and buildings

Land and buildings were adjusted to account for them at the correct values

The effect of the adjustment on the prior year is as follows:

Adjustments affecting the statement of financial position		
Property, plant and equipment	-	(9,341,241)
Accumulated surplus	-	9,201,676
	-	**(139,565)**

Adjustments affecting the statement of financial performance		
Depreciation	-	139,565

Figures in Rand	2014	2013

43. Risk management

Financial risk management

Liquidity risk

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality’s financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2014	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	46,660,903	-	-	-
Consumer deposits	-	-	392,286	-

At 30 June 2013	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	20,547,316	-	-	-
Consumer deposits	-	-	375,445	-

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and receivables. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by management.

44. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

45. Unauthorised and irregular expenditure

	2014	2013
Opening balance	30,704,048	30,469,318
Add: Unauthorised and Irregular Expenditure - current year	21,428,703	234,730
	52,132,751	**30,704,048**

Unauthorised expenditure - 2014 R11 701 145:

The municipality is in the process of reviewing their budgeting strategies. This should enable the municipality to reduce unauthorised expenditue in the future.

Irregular expenditure - 2014 R9 727 558:

The irregular expenditure relates to tenders that were procurred through Section 32 of the MFMA. SCM did not have the correct capacity to ensure that all the policies and procedures were followed. The municipality is in the process of adding more capacity to the SCM department to limit irregular expenditure.

Figures in Rand	2014	2013

46. Fruitless and wasteful expenditure

Opening balance	1,576,558	1,023,544
Add: Fruitless and Wasteful Expenditure - current year	897,754	553,014
	2,474,312	**1,576,558**

The increase in fruitless and wasteful expenditure was a direct result of financial constraints. The municipality was unable to pay their trade payables timeously, which resulted in interest occuring. The councillors have introduced stringent policies to deal with the increasing fruitless and wasteful expenditure that is under the control of the municipality.

47. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	8,336	-
Amount paid - current year	-	8,336
	8,336	**8,336**

Audit fees

Opening balance	4,689,173	3,492,834
Current year fee	3,469,927	3,343,608
Amount paid - current year	(819,676)	(2,147,269)
	7,339,424	**4,689,173**

PAYE and UIF

Opening balance	661,428	655,425
Current year fee	1,760,462	1,799,734
Amount paid - current year	(1,706,350)	(1,793,731)
	715,540	**661,428**

Pension and medical aid deductions

Opening balance	(39,067)	(39,067)

VAT

VAT receivable	860,821	38,796

VAT output payables and VAT input receivables are shown in note 7.

All VAT returns have been submitted by the due date throughout the year.

Figures in Rand	2014	2013

47. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2014:

30 June 2014	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Auld CA	292	-	292
Bruintjies L	92	-	92
Douglas LJ	1,051	5,109	6,160
Jack P	73	-	73
Lombard E	1,316	-	1,316
Maloni QP	99	-	99
Mentoor BP	81	-	81
Ndyambo SA	73	-	73
	3,077	**5,109**	**8,186**

30 June 2013	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Auld CA	278	-	278
Bruintjies L	76	-	76
De Lange G	82	-	82
Jack P	70	-	70
Lombard E	765	-	765
Maloni QP	67	-	67
Mentoor BP	67	-	67
Ndyambo SA	87	-	87
	1,492	**-**	**1,492**

48. Budget differences

Material differences between budget and actual amounts

47.1 - Service Charges: Electricity collections are below budget due to the high rate of electricity theft.

47.2 - Rental Facilities: Municipal building rentals were not budgeted for - they were rented out during the year.

47.3 - Licenses and Permits: The demand for learners licenses was high this financial year resulting in an increase in revenue.

47.4 - Other Income: The positive variance is due to interest chared on sundry services

47.5 - Property Rates: Under budgeted

47.6 - Grants: Unspent MIG was deducted by National Treasury from the equitable share.

47.7 - Traffic Fines: The traffic department issued more fines than in the budget, but this money still needs to be collected.

47.8 - Personnel: Staff were dismissed during the year and positions remained vacant.

47.9 - Councillors Remuneration: The upper limit increases were not as high as budgeted for.

47.10 - Repairs and Maintenance: Financial contraints prevented the full budget being utilized for repairs and maintenance.

47.11 - Bulk Purchases: Electricity theft resulted in a higher demand from Eskom increasing bulk expenditure.

Notes to the Annual Financial Statements

48. Budget differences (continued)

47.12 - Contracted Services: The big variance is the amount for the service provider to prepare financial statements that was not budgeted for.

47.13 - Grants Paid: The unpaid variance is the unspent INEG grant.

47.14 - General Expenses: Financial constraints resulted in reduced general expenditure.

Appendix B
June 2014

Analysis of property, plant and equipment as at 30 June 2014

	Cost/Revaluation							Accumulated depreciation						
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Land and buildings														
Land (Separate for AFS purposes)	54,747,700	-	-	-	-	**-**	**54,747,700**	-	-	-	-	-	**-**	54,747,700
Landfill sites (Seperate for AFS purposes)	-	-	-	-	-	**-**	**-**	-	-	-	-	-	**-**	-
Quarries (Separate for AFS purposes)	-	-	-	-	-	**-**	**-**	-	-	-	-	-	**-**	-
Buildings (Separate for AFS purposes)	4,186,955	-	-	-	-	**-**	**4,186,955**	(279,131)	-	-	(139,565)	-	**(418,696)**	3,768,259
	58,934,655	**-**	**-**	**-**	**-**	**-**	**58,934,655**	**(279,131)**	**-**	**-**	**(139,565)**	**-**	**(418,696)**	**58,515,959**
Infrastructure	**143,701,016**	**9,528,305**	**-**	**-**	**-**	**-**	**153,229,321**	**(29,971,799)**	**-**	**-**	**(1,988)**	**-**	**(29,973,787)**	**123,255,534**
Community Assets	**22,674,253**	**-**	**-**	**-**	**-**	**-**	**22,674,253**	**(1,583,301)**	**-**	**-**	**-**	**-**	**(1,583,301)**	**21,090,952**

Appendix B
June 2014

Analysis of property, plant and equipment as at 30 June 2014

	Cost/Revaluation							Accumulated depreciation						
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Heritage assets	43,632	-	-	-	-	-	43,632	-	-	-	-	-	-	43,632
Specialised vehicles	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	5,016,906	904,921	-	-	-	-	5,921,827	(1,469,393)	(591,369)	-	-	-	(2,060,762)	3,861,065

Appendix B

June 2014

Analysis of property, plant and equipment as at 30 June 2014

	Cost/Revaluation							Accumulated depreciation						
	Opening Balance Rand	**Additions Rand**	**Disposals Rand**	**Transfers Rand**	**Revaluations Rand**	**Other changes, movements Rand**	**Closing Balance Rand**	**Opening Balance Rand**	**Disposals Rand**	**Transfers Rand**	**Depreciation Rand**	**Impairment loss Rand**	**Closing Balance Rand**	**Carrying value Rand**
Total property plant and equipment														
Land and buildings	58,934,655	-	-	-	-	**-**	**58,934,655**	(279,131)	-	-	(139,565)	-	**(418,696)**	58,515,959
Infrastructure	143,701,016	9,528,305	-	-	-	**-**	**153,229,321**	(29,971,799)	-	-	(1,988)	-	**(29,973,787)**	123,255,534
Community Assets	22,674,253	-	-	-	-	**-**	**22,674,253**	(1,583,301)	-	-	-	-	**(1,583,301)**	21,090,952
Heritage assets	43,632	-	-	-	-	**-**	**43,632**	-	-	-	-	-	**-**	43,632
Specialised vehicles	-	-	-	-	-	**-**	**-**	-	-	-	-	-	**-**	-
Other assets	5,016,906	904,921	-	-	-	**-**	**5,921,827**	(1,469,393)	(591,369)	-	-	-	**(2,060,762)**	3,861,065
	230,370,462	**10,433,226**	**-**	**-**	**-**	**-**	**240,803,688**	**(33,303,624)**	**(591,369)**	**-**	**(141,553)**	**-**	**(34,036,546)**	**206,767,142**
Agricultural/Biological assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Intangible assets	**27,348**	**6,340**	**-**	**-**	**-**	**-**	**33,688**	**(17,080)**	**-**	**-**	**(7,533)**	**-**	**(24,613)**	**9,075**
Investment properties	**20,308,100**	**-**	**-**	**-**	**-**	**-**	**20,308,100**	**(253,925)**	**-**	**-**	**(253,925)**	**-**	**(507,850)**	**19,800,250**
Total														
Land and buildings	58,934,655	-	-	-	-	**-**	**58,934,655**	(279,131)	-	-	(139,565)	-	**(418,696)**	58,515,959
Infrastructure	143,701,016	9,528,305	-	-	-	**-**	**153,229,321**	(29,971,799)	-	-	(1,988)	-	**(29,973,787)**	123,255,534
Community Assets	22,674,253	-	-	-	-	**-**	**22,674,253**	(1,583,301)	-	-	-	-	**(1,583,301)**	21,090,952
Heritage assets	43,632	-	-	-	-	**-**	**43,632**	-	-	-	-	-	**-**	43,632
Specialised vehicles	-	-	-	-	-	**-**	**-**	-	-	-	-	-	**-**	-
Other assets	5,016,906	904,921	-	-	-	**-**	**5,921,827**	(1,469,393)	(591,369)	-	-	-	**(2,060,762)**	3,861,065
Agricultural/Biological assets	-	-	-	-	-	**-**	**-**	-	-	-	-	-	**-**	-
Intangible assets	27,348	6,340	-	-	-	**-**	**33,688**	(17,080)	-	-	(7,533)	-	**(24,613)**	9,075
Investment properties	20,308,100	-	-	-	-	**-**	**20,308,100**	(253,925)	-	-	(253,925)	-	**(507,850)**	19,800,250
	250,705,910	**10,439,566**	**-**	**-**	**-**	**-**	**261,145,476**	**(33,574,629)**	**(591,369)**	**-**	**(403,011)**	**-**	**(34,569,009)**	**226,576,467**

Appendix B

Analysis of property, plant and equipment as at 30 June 2013

	Cost/Revaluation							Accumulated depreciation						
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Land and buildings														
Land (Separate for AFS purposes)	54,747,700	-	-	-	-	-	**54,747,700**	-	-	-	-	-	-	54,747,700
Landfill Sites (Separate for AFS pursoses)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Quarries (Separate for AFS purposes)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Buildings (Separate for AFS purposes)	4,186,955	-	-	-	-	-	**4,186,955**	(139,565)	-	-	(139,565)	-	**(279,130)**	3,907,825
	58,934,655	**-**	**-**	**-**	**-**	**-**	**58,934,655**	**(139,565)**	**-**	**-**	**(139,565)**	**-**	**(279,130)**	**58,655,525**
Infrastructure	**141,641,625**	**2,059,391**	**-**	**-**	**-**	**-**	**143,701,016**	**(22,403,102)**	**-**	**-**	**(7,568,697)**	**-**	**(29,971,799)**	**113,729,217**
Community Assets	**22,674,253**	**-**	**-**	**-**	**-**	**-**	**22,674,253**	**(1,583,301)**	**-**	**-**	**-**	**-**	**(1,583,301)**	**21,090,952**

Appendix B

June 2014

Analysis of property, plant and equipment as at 30 June 2013

	Cost/Revaluation							Accumulated depreciation						
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Heritage assets	43,632	-	-	-	-	-	43,632	-	-	-	-	-	-	43,632
Specialised vehicles	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	4,760,190	256,716	-	-	-	-	5,016,906	(965,354)	-	-	(504,039)	-	(1,469,393)	3,547,513

Appendix B

June 2014

Analysis of property, plant and equipment as at 30 June 2013

	Cost/Revaluation							Accumulated depreciation						
	Opening Balance Rand	**Additions Rand**	**Disposals Rand**	**Transfers Rand**	**Revaluations Rand**	**Other changes, movements Rand**	**Closing Balance Rand**	**Opening Balance Rand**	**Disposals Rand**	**Transfers Rand**	**Depreciation Rand**	**Impairment loss Rand**	**Closing Balance Rand**	**Carrying value Rand**
Total property plant and equipment														
Land and buildings	58,934,655	-	-	-	-	**-**	**58,934,655**	(139,565)	-	-	(139,565)	-	**(279,130)**	58,655,525
Infrastructure	141,641,625	2,059,391	-	-	-	**-**	**143,701,016**	(22,403,102)	-	-	(7,568,697)	-	**(29,971,799)**	113,729,217
Community Assets	22,674,253	-	-	-	-	**-**	**22,674,253**	(1,583,301)	-	-	-	-	**(1,583,301)**	21,090,952
Heritage assets	43,632	-	-	-	-	**-**	**43,632**	-	-	-	-	-	**-**	43,632
Specialised vehicles	-	-	-	-	-	**-**	**-**	-	-	-	-	-	**-**	-
Other assets	4,760,190	256,716	-	-	-	**-**	**5,016,906**	(965,354)	-	-	(504,039)	-	**(1,469,393)**	3,547,513
	228,054,355	**2,316,107**	**-**	**-**	**-**	**-**	**230,370,462**	**(25,091,322)**	**-**	**-**	**(8,212,301)**	**-**	**(33,303,623)**	**197,066,839**
Agricultural/Biological assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Intangible assets	**27,348**	**-**	**-**	**-**	**-**	**-**	**27,348**	**(13,664)**	**-**	**-**	**(3,416)**	**-**	**(17,080)**	**10,268**
Investment properties	**20,308,100**	**-**	**-**	**-**	**-**	**-**	**20,308,100**	**-**	**-**	**-**	**(253,926)**	**-**	**(253,926)**	**20,054,174**
Total														
Land and buildings	58,934,655	-	-	-	-	**-**	**58,934,655**	(139,565)	-	-	(139,565)	-	**(279,130)**	58,655,525
Infrastructure	141,641,625	2,059,391	-	-	-	**-**	**143,701,016**	(22,403,102)	-	-	(7,568,697)	-	**(29,971,799)**	113,729,217
Community Assets	22,674,253	-	-	-	-	**-**	**22,674,253**	(1,583,301)	-	-	-	-	**(1,583,301)**	21,090,952
Heritage assets	43,632	-	-	-	-	**-**	**43,632**	-	-	-	-	-	**-**	43,632
Specialised vehicles	-	-	-	-	-	**-**	**-**	-	-	-	-	-	**-**	-
Other assets	4,760,190	256,716	-	-	-	**-**	**5,016,906**	(965,354)	-	-	(504,039)	-	**(1,469,393)**	3,547,513
Agricultural/Biological assets	-	-	-	-	-	**-**	**-**	-	-	-	-	-	**-**	-
Intangible assets	27,348	-	-	-	-	**-**	**27,348**	(13,664)	-	-	(3,416)	-	**(17,080)**	10,268
Investment properties	20,308,100	-	-	-	-	**-**	**20,308,100**	-	-	-	(253,926)	-	**(253,926)**	20,054,174
	248,389,803	**2,316,107**	**-**	**-**	**-**	**-**	**250,705,910**	**(25,104,986)**	**-**	**-**	**(8,469,643)**	**-**	**(33,574,629)**	**217,131,281**

Appendix F
Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003
Monthly Rep. Per.
June 2014

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts				Quarterly Expenditure				Grants and Subsidies delayed / withheld				Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance
															Yes/ No	
Equitable Share	Treasury	9,067,000	4,100,000	7,912,000	-	9,067,000	4,100,000	7,912,000	-	-	-	1,228,000	-	Unspent MIG portion deducted	Yes	
Municipal Infrastructure	Treasury	3,712,000	3,712,000	3,712,000	-	3,299,227	4,371,664	62,748	3,028,931	-	-	-	-		Yes	
Municipal Systems Improvements	Treasury	890,000	-	-	-	693,809	191,512	4,636	-	-	-	-	-		Yes	
Expanded Public Works Programme	Treasury	400,000	300,000	300,000	-	180,870	397,460	245,076	186,494	-	-	-	-		Yes	
Library Subsidies	EC: Sport & Recreation	522,000	-	-	-	130,500	130,500	130,500	130,500	-	-	-	-		Yes	
Local Economic Development Capacity	Provincial Department	117,400	-	-	-	29,350	29,350	29,350	29,350	-	-	-	-		Yes	
Integrated National Electrification Programme	Treasury	750,000	850,000	-	-	499,421	249,500	-	-	-	-	-	-		Yes	
Local Government Financial Management	Treasury	1,650,000	-	-	-	1,111,300	145,382	130,646	253,350	-	-	-	-		Yes	
		17,108,400	8,962,000	11,924,000	-	15,011,477	9,615,368	8,514,956	3,628,625	-	-	1,228,000	-			

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.